

FEDERAL PIONEER LIMITED 1979 ANNUAL REPORT

For the ten months ended October 31 1979

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FEDERAL
PIONEER

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The Annual Meeting

of the shareholders of Federal Pioneer Limited is to be held in the Oak Room of the Inn on the Park, Eglinton Avenue East at Leslie Street, Toronto, Ontario, Canada on Thursday, the 17th day of April, 1980 at the hour of 11:00 o'clock in the forenoon (E.S.T.).

Cover

The cover symbolizes the dawn of a new era during which electricity will rival oil as the major energy source.

The Corporation

The Corporation is engaged in the manufacture of electrical equipment—primarily that used in the distribution of electrical power. Major product lines include:

- Power and Distribution Transformers
- Circuit Breakers
- Switchgear and Low Voltage Distribution Equipment
- Electric Heaters

12 manufacturing plants and 18 sales offices are located across Canada and a subsidiary company operates a sales office and manufacturing facility in Great Britain. In total the Corporation employs approximately 2,500 people.

Shareholders

Class A Shareholders

as at October 31 1979

	Number of Shareholders	Number of Shares
Residents of Canada	462	498,641
Residents of U.S.A.	6	* 730,457
Others	1	1
	<u>469</u>	<u>1,229,099</u>

*Includes 729,057 owned by Parent Company, Federal Pacific Electric Company.

Class A Share Trading Summary

for the ten months ended October 31 1979

Shares traded	167,649
Price range	\$33-\$44
Closing price October 31 1979	\$35
Valuation Day Price (December 22 1971)	\$17.50

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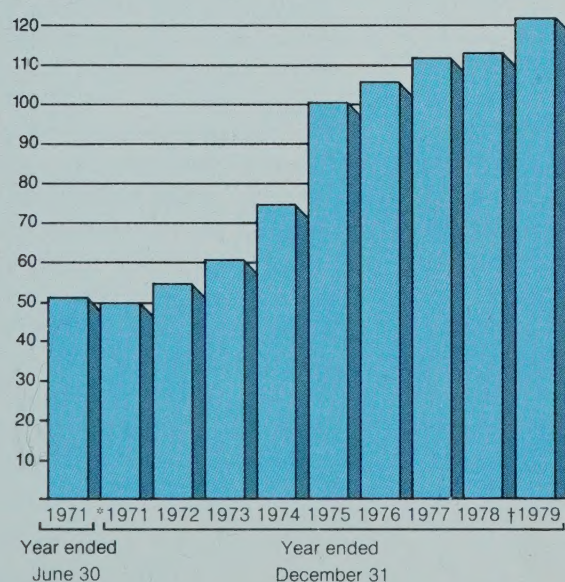
Le Secrétaire
Federal Pioneer Limited
19 Waterman Avenue
Toronto, Ontario
M4B 1Y2

Financial Highlights

	Ten months ended October 31 1979	Year ended December 31 1978
	\$	\$
Net sales	99,542,992	112,617,341
Income before income taxes and minority interests	4,864,118	11,566,812
Net income for the period	3,686,359	7,027,738
Net income per sales dollar (cents)	3.7	6.2
Earnings per Class A and B share:		
Undiluted	3.00	5.76
Fully diluted	3.00	5.71
Dividends declared:		
First Preference shares	319	4,803
Class A shares	811,205	1,056,469
Class B shares	—	19,807
	811,524	1,081,079
Purchases of property, plant and equipment during the period	3,031,063	1,997,131
Depreciation provided for the period	1,570,244	1,602,388
Working capital at end of period	52,889,904	52,775,795
Shareholders' equity at end of period	60,175,435	57,312,200
Equity per Class A and B share at end of period after allowing for conversion of all outstanding First Preference shares	48.96	46.59

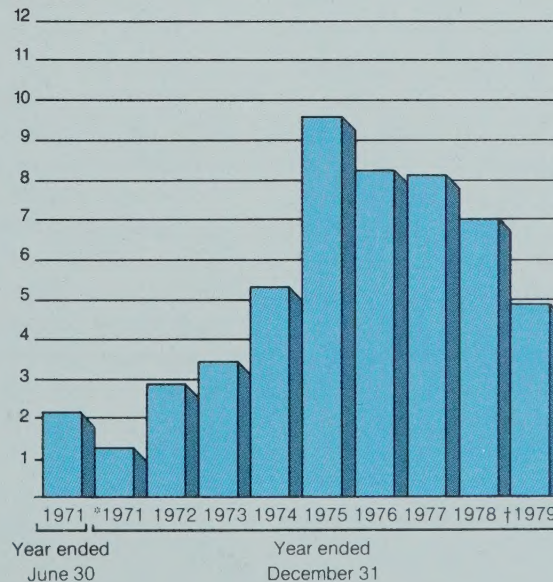
Net Sales

\$ million



Net Income

\$ million



*6 months figures annualized

† based upon ten months ended October 31 1979 audited plus two months ended December 31 1979 unaudited

Report to the Shareholders



Seated left to right—

A. G. Daley
B. J. Ferreira
E. C. Markwick
B. W. Ball
S. M. Roberts
K. J. Thompson
C. A. Wright

When Reliance Electric Company of Cleveland, Ohio, purchased the interests of UV Industries, Inc., of approximately 60% in this company, in March 1979, we were requested by Reliance to change our fiscal year end to October 31st, so as to conform with its fiscal year end. Appropriate action was taken by your Board to accomplish this but when the Exxon Corporation subsequently purchased Reliance Electric Company and to conform with that company's year end, it became necessary to revert to the original date. The appropriate action and approvals for this second change have taken place with effect from 1980. The end result is a ten-month fiscal period—

January 1 to October 31 1979. For 1980 your corporation will report for the fourteen months ended December 31 1980, and thereafter on the calendar year, as formerly.

If the sales for the ten-month period were annualized, the result would indicate a growth of about six percent. The profit before and after taxes, however, is substantially lower than that attained in 1978 after adjusting for the shorter period. In last year's report, it was stated that the Apparatus Transformer section of our business was experiencing poor demand and very poor prices for both power and distribution transformers. There was

improved demand late in 1978 but the competition for the available business offered was intense with customers able to place orders at firm prices and for shorter than normal delivery time. It seemed in 1978 that double digit inflation had passed and the corporation accepted the available business at prices which turned out to be inadequate because of the magnitude of unforeseen material costs increases. For instance, in the ten-month period the price for magnet wire rose by 32%, core steel by 24%, transformer oil by 38% and steel plate by 21%. Many other purchased material and components had similar increases. These costs coupled with very

competitive selling prices resulted in an unsatisfactory operation in that Division. Hopefully, actions taken since then will prevent a similar occurrence. On the other hand, the products of the Distribution Division used largely by the construction trades, continued with brisk demand and generally the increased costs were recovered.

There were no industrial disputes resulting in lost production in our plants in Canada; however, the U.K. operation was severely affected by a transportation strike early in the year. As a result of this strike, it was not possible to ship goods for export—nor to completely delay the receipt of locally purchased materials. This combination resulted in unbalanced inventories and loss of sales, with severe redundancies in personnel. Corrective actions were initiated and some early improvement has been achieved but it will take this fiscal year to restore the U.K. operation to its full potential.

In spite of these unsatisfactory results, your directors remain optimistic with regard to the future for the electrical industry in general and your corporation in particular. The growth in the consumption of kilowatt hours seems to be exceeding recent forecasts and it is anticipated by experts that rising costs of other forms of energy will cause this increase to continue, probably at even a higher rate. Indeed, our backlog of unfilled orders as at the end of October was at a record level.

For these reasons the corporation has carried out a significant programme of expansion with, among others, an 80,000 square foot extension at

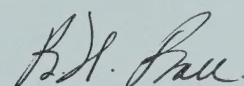
Bramalea, Ontario, a fifty percent increase at Richmond, B.C. and a substantial renovation at the Winnipeg facility. In addition, new automated production machinery has been installed at several facilities. While actual expenditures on fixed assets are shown as just over \$3,000,000 in this report, total commitments and material still to be paid for brings this total during the current year to nearly \$6,000,000. This compares with approximately \$2,000,000 and \$1,500,000 in the two prior years.

Late in the year and as a result of the sale of the interest of U.V. Industries in the corporation, Mr. Martin Horwitz tendered his resignation as a director of the corporation. Mr. Horwitz' valuable contribution to the successful operation of this corporation is gratefully acknowledged. In his place, Mr. William B. Korb, a Group Vice-President of Reliance Electric Company has been elected to the board.

The products of your corporation were sold during the year to such important customers as Hydro Quebec for its James Bay project, the Ford Motor Company for the Engine Plant in Windsor, Dennison Mines Uranium Expansion, Alberta Power Generating Plant, Nova Scotia Power Commission's Lingan Plant and a host of other significant industrial and utility developments. Overseas shipments included transformers for a cement plant in Nigeria, for the National Utility in Panama and equipment for a Canadian designed Pulp Mill in Czechoslovakia. The U.K. subsidiary supplied extensive distribution materials for Asian and African sites, notably in Saudi Arabia and Nigeria.

The Board recognizes and appreciates the strong support of all of its employees in providing demanding services to all of the company's loyal clients, both domestic and overseas.

Submitted on behalf of
the Board of Directors



B. W. Ball
President and Chief Executive Officer
February 18 1980

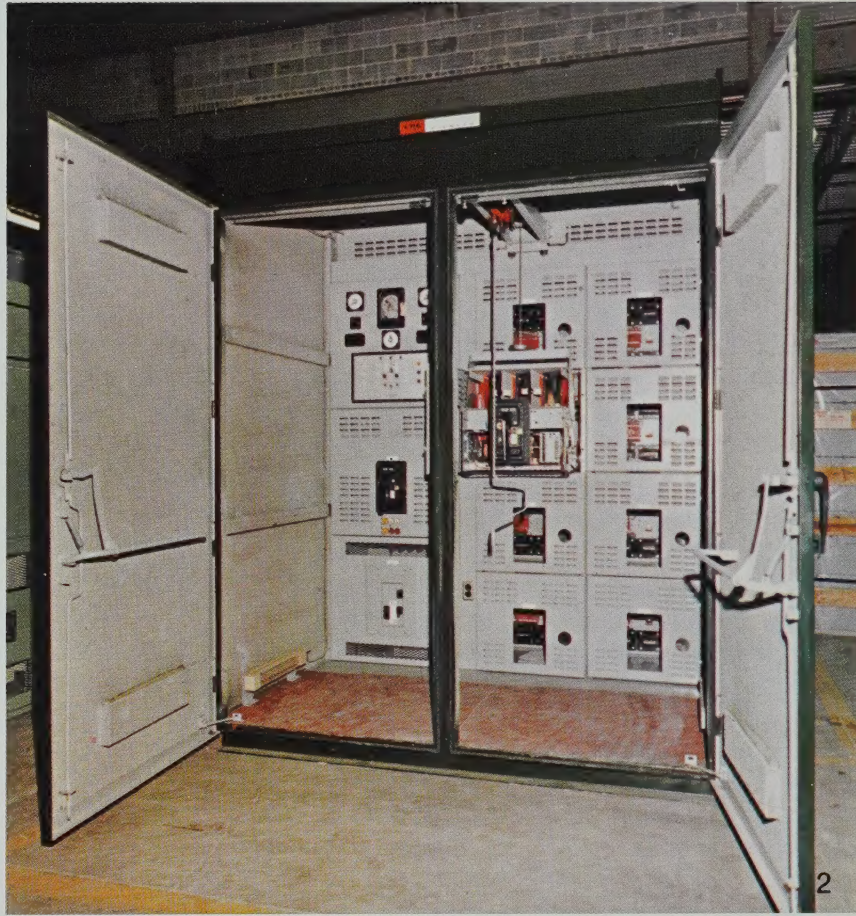
During the year your company suffered the death of Frank Halliday Ferris, Vice-President of Federal Pioneer Ltd., and Managing Director of Federal Electric Limited, U.K. This was a result of an accident in the "Fastnet" sailing race, in the Irish Sea, August 14, 1979.

Mr. Ferris had been employed by the Federal companies since 1947 and was widely known and respected in the industry throughout the world—but most of all—by his fellow employees.

Our sincere sympathy is extended to his widow and family.



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Product Highlights

Energy—its efficient utilization and conservation has been in the forefront of the Canadian economy during this year. As a leader in the field of providing products to distribute and control electrical energy, your Corporation has engaged in an extensive program of product development and product improvement to keep pace with these rapidly changing demands.

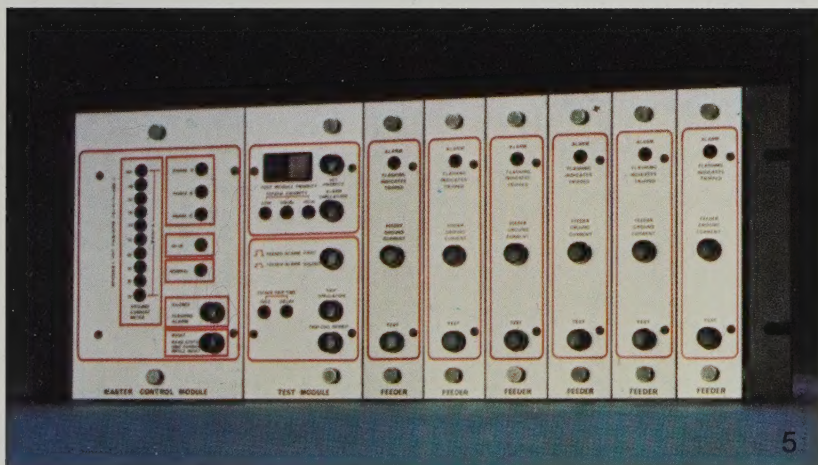
One example of the type of change that has taken place is found in multi-tenant occupied buildings. Formerly, such buildings frequently utilized bulk metering of electricity. In such a case, tenants paid a fixed proportion of the total electrical consumption. Now, to encourage conservation, individual tenant metering is installed. To facilitate this change, a modular unit was designed and introduced to the Canadian market. This unit, illustrated in photograph number 1, combines a branch circuit disconnect switch, high rupturing capacity fuses and provision for tenant metering in a convenient and compact enclosure that eliminates the need for any field assembly.

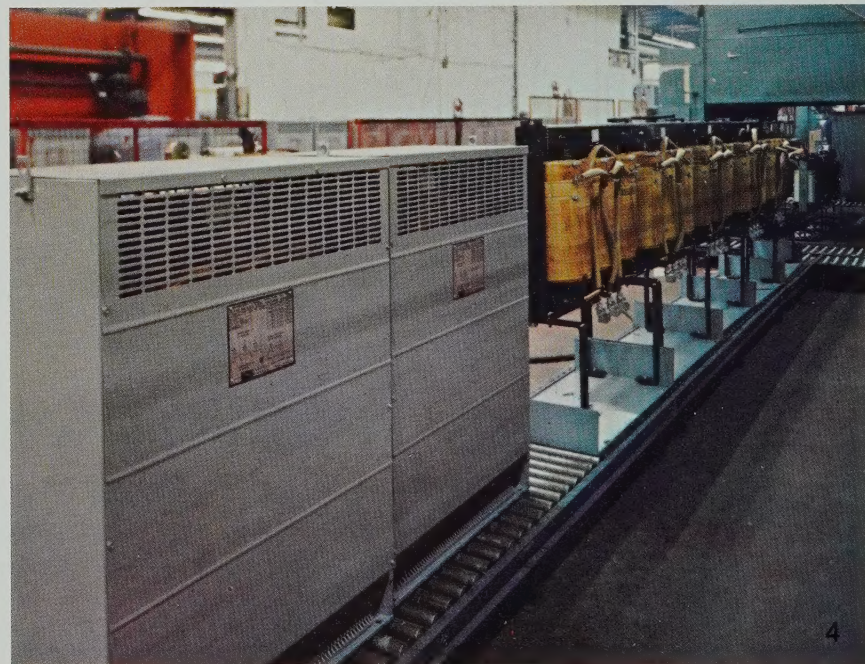
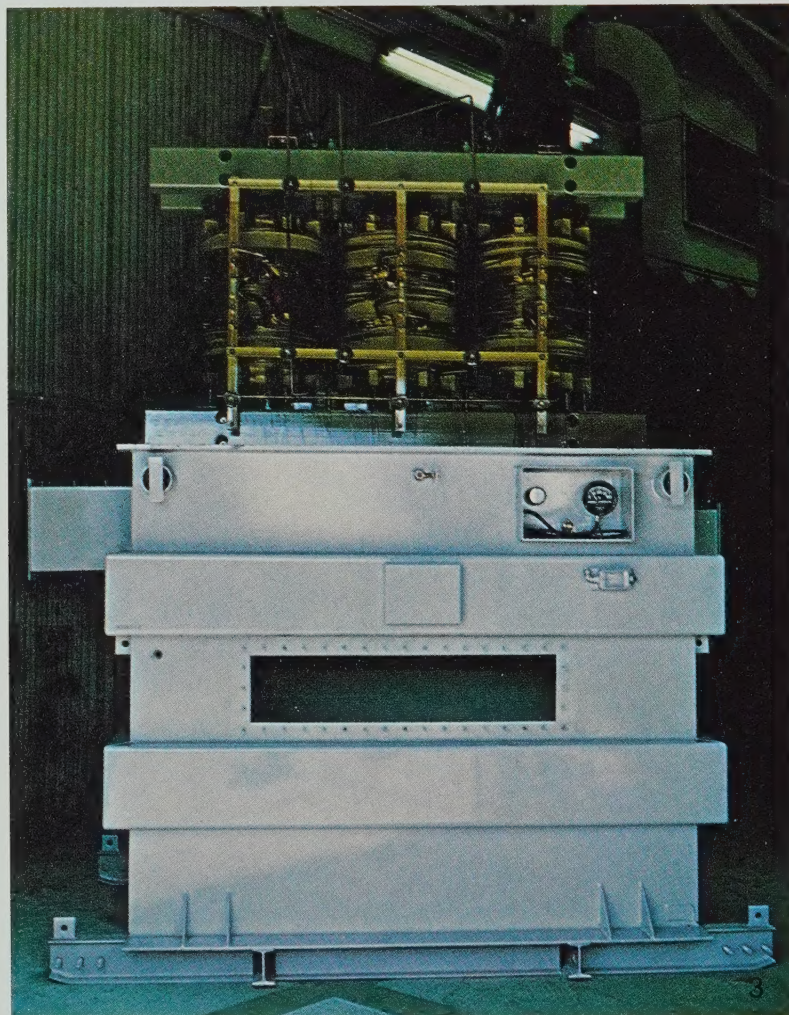
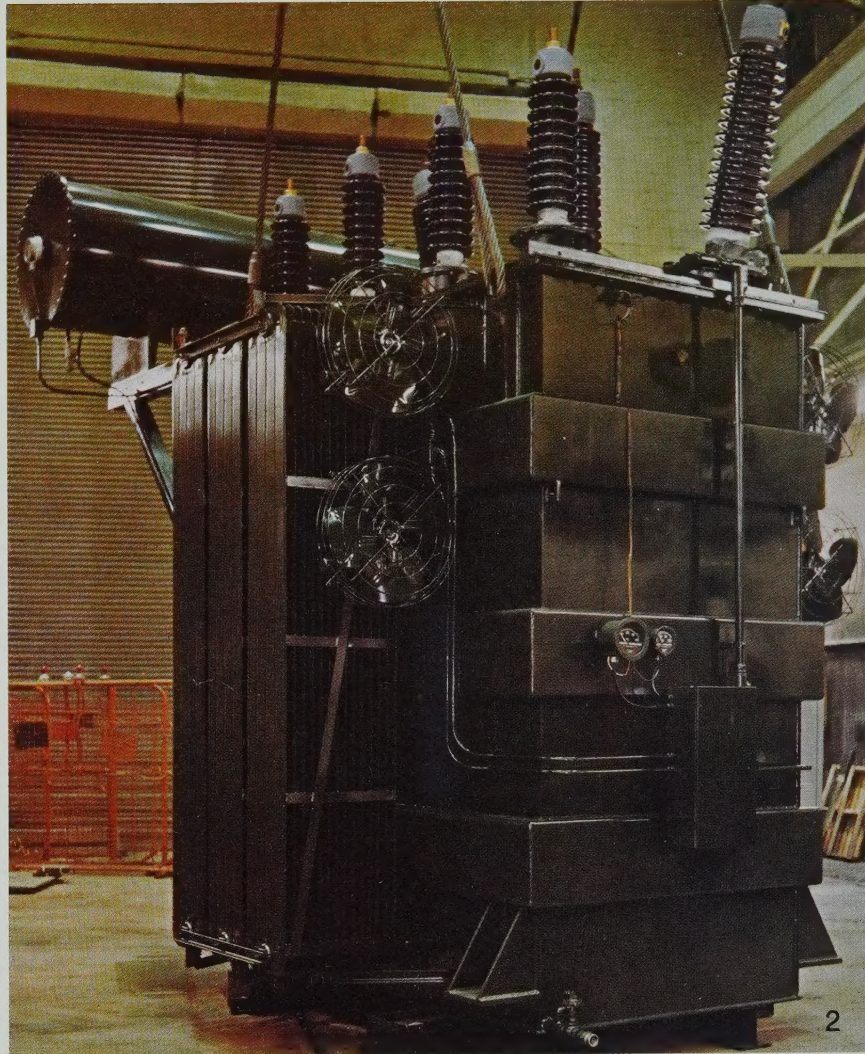
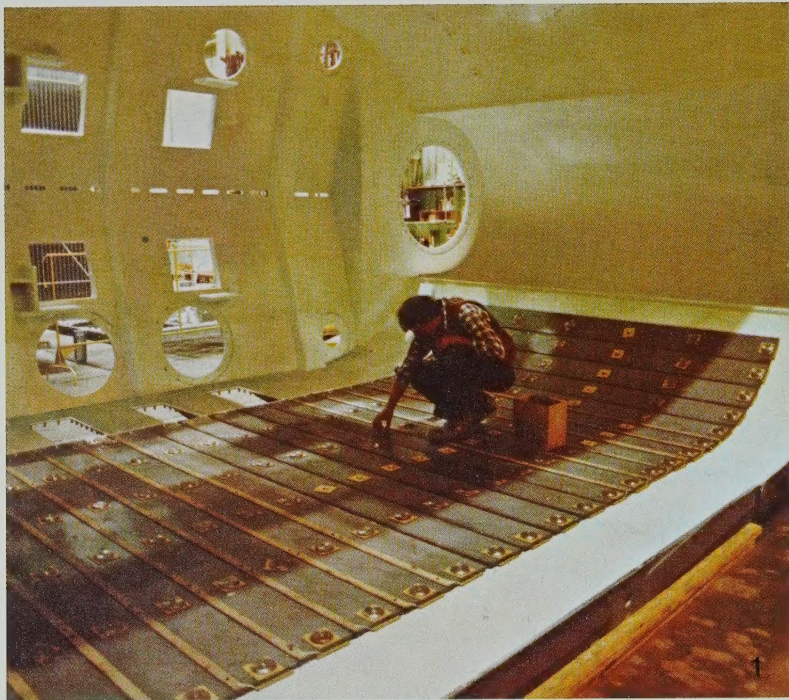
Your Corporation has continued to increase its participation in the commercial, industrial and utility markets. During the year, these markets have expanded, and Federal Pioneer products have been well accepted. Photograph number 2, illustrates an outdoor metal enclosed, low voltage, air circuit breaker switchboard for an important aluminum processor. This construction provides an electrically heated enclosed aisle space to permit convenient servicing of the equipment regardless of weather. Photograph number 3, shows one of a number of indoor, low voltage switchboards, supplied for installation in the Baie James power project for Hydro Quebec. Many of the company's products have been installed at this massive hydro electric project in northern Quebec.

Another growing market arises from the use of computers by many smaller businesses to achieve savings in operating costs. Computers now require a sophisticated source of power supply. The unit illustrated in photograph number 4, pro-

vides an isolated power supply, with low transient "noises" and greatly reduces malfunctions and inaccuracies in modern ultra-sensitive computer systems. This new addition to our product range has found ready acceptance in the Canadian market.

During the year, the systems protection product division has had an active program of new product development and product improvement. Several of the popular models of ground fault relays have undergone major redesign. These changes have enhanced product performance and made available protective systems which are unique in our industry. In addition, a modular unit has been developed for the ground fault protection of ungrounded systems which meets an important market need. This relay, illustrated in photograph number 5, provides protection for use on continuous process industries' electrical systems, which until now have risked costly equipment breakdowns due to undetected ground faults.





Federal Pioneer, designs and manufactures transformers in all classes, from the smallest to the very large, and metalclad switchgear equipment between 5KV and 35KV. The work requires technical sophistication in a very competitive field. Your Corporation performs a leading role in this Canadian industry and is in the forefront with many innovations. The specifications and quality requirement levels are extremely high, so we are pleased to announce that during this past year we have been approved to the highest standard of Quality Assurance by a major audit team composed of the leading Canadian Utilities.

The high quality standards demanded of this business is exemplified in photograph number 1. Transformer tanks, after they leave the welding shop are shot blast cleaned, primed and painted with a first coat. The inside is then painted with an oil resistant white paint to facilitate visibility for internal work and to determine cleanliness. The strips of laminations bolted to the sides of the tank are placed there to reduce heating effects caused by stray flux. During normal operation, the flux produced by the transformer core, not only interacts with the coils, but some spills over and enters other parts of the transformer. Tanks and other steelwork are vulnerable and will heat up if the flux is excessive. Shields, made of strips of core steels, are therefore placed in positions which this stray

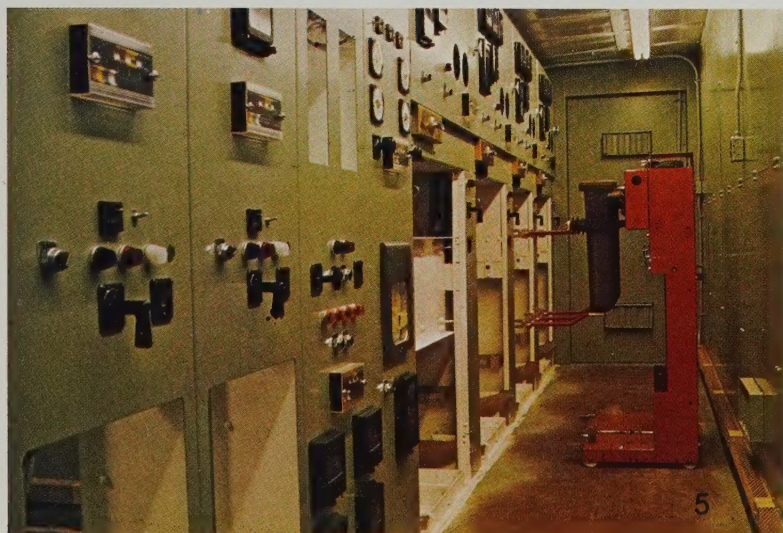
flux will enter in preference to the tank. The core steel will not heat up because of its superior magnetic properties.

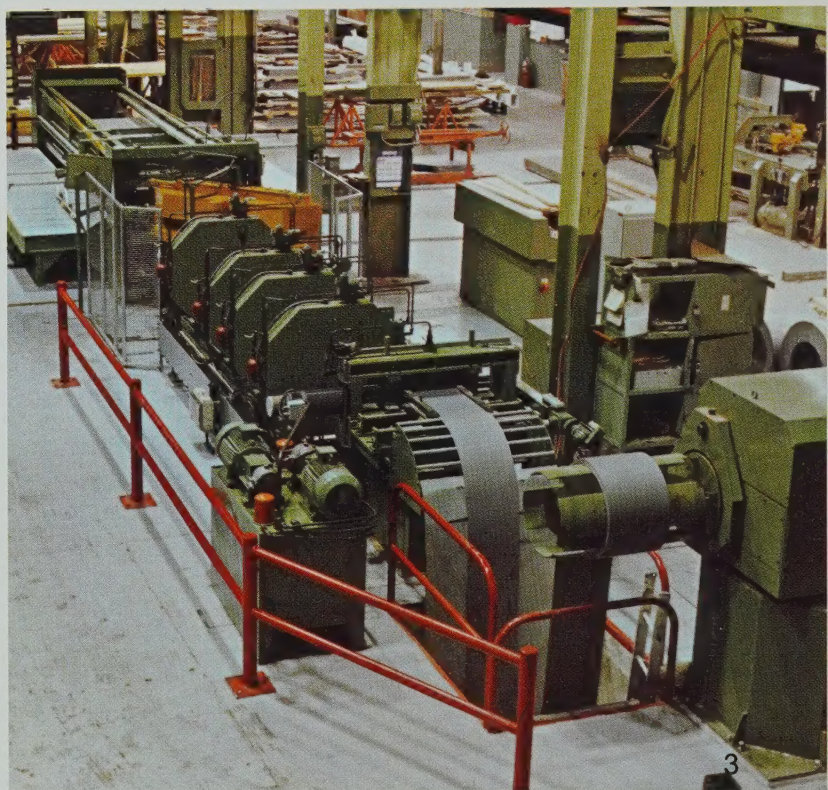
The transformer in photograph number 2 is representative of the medium power range made in one of our five transformer plants. The particular unit was installed at Lake Placid in time for the Winter Olympic Games. The transformer is a 7.5MVA, 3 phase oil filled unit. It is cooled by natural air convection or by forced air by the use of fans. Other transformers delivered to Lake Placid with this order were 6-1250KVA single phase, oil filled units, which are also cooled by natural or forced air.

With the resurgence of mining work and the prohibition of Askarel insulating oil (which contain PCB's) alternates to traditional units have had to be sought. One solution is the use of gas filled dry type transformers, an example of which is pictured in photograph number 3. A standard dry type (Class H) transformer is hermetically sealed inside a welded steel tank. The tank is capable of withstanding vacuum and normal operating pressures. Access to the off-circuit tap board is through a gasketed side wall cover. After assembly the air is removed and replaced with dry nitrogen gas at about 2-3 pounds pressure. The result is a rugged non-combustible, environment proof unit. It can be used indoors and outdoors at most mining faces.

Due to marketing techniques and production plant re-arrangements, the FPE participation in the small dry type transformer market (known as Federal Pioneer FH) has been phenomenal during the past year. The market has shown a steady increase but the FPE market share has outstripped the business growth. Distributor sales methods have been extremely successful, and to meet the consequent demand a flowline system of manufacture has been installed in the Toronto factory (photograph number 4).

In metalclad switchgear the continued growth and acceptance of SF6 gas as a circuit breaker insulating, arc breaking medium has allowed your company to progress in this area. Usually the circuit breaker is installed in outdoor metalclad housings (photograph number 5). In these housings are several cells into which a circuit breaker is connected. In our photograph, one SF6 circuit breaker is shown completely withdrawn from its cell. Metalclad switchgear contains all equipment to switch, distribute and measure the electrical energy which is controlled through this block of cells. All major parts of the primary circuit (CTS, PTS, busbars) are separately enclosed in grounded metal compartments and all major current carrying parts are fully insulated. SF6 circuit breakers in the FPE range operate up to 34.5KV at 2000 amps rating.





Plant Expansions

During 1979 the Corporation carried out expansions and equipment modernization programs in a number of its plants and some of these are highlighted below.

In the fall of 1979, in response to improved market demand, a contract was entered to double the size of the Bramalea, Ontario, Engineered Products plant. Construction is proceeding on schedule and the extension will be occupied during the second quarter of 1980. This addition will permit the consolidation of manufacturing currently taking place in the existing plant and a rented satellite plant, and also provide adequate sales office space for the Central District Sales staff. The Bramalea plant produces Low Voltage Power Breakers for the Canadian and export markets, Low and Medium Voltage Switchgear assemblies, Distribution Panel Boards, Power Bus Duct and other electrical protective equipment. Photograph number 1 shows an artist's impression of this expanded facility.

Early in 1979 work was commenced on an addition to the Richmond, B.C. plant which increased its floor space by 50%. This space was occupied in the fall and is now fully utilized (photograph number 2).

Included in this expansion was the acquisition of a substantial amount of new metal fabrication equipment, including additional shearing capacity and a computer controlled fabricating machine. An automatic metal finishing department was added which improves the quality of paint finishes at considerably reduced cost. The expansion also incorporated an enlarged finished goods warehouse to serve the British Columbia market and improved office facilities for the Pacific District Sales staff.

The test bay at the large power transformer plant in Winnipeg has been extended during the period and with the installation in 1980 of additional equipment, the facilities at this plant will be capable of testing much larger transformers, including Extra High Voltage convertor transformers with some units due to be delivered to Manitoba Hydro in the mid-1980's. Production equipment in the Winnipeg plant has also been significantly improved with the installation of a new radiator production line and a computerized core shear (photograph number 3). In early 1980 a new painting system will be completed. All of these items will enhance the quality and lower the cost of the products concerned.

Consolidated Statement of Income and Retained Earnings

	Ten months ended October 31 1979	Year ended December 31 1978
Net sales	\$ 99,542,992	\$112,617,341
Income before the undernoted items	\$ 6,071,368	\$ 12,812,631
Add: Interest income from short-term deposits	960,572	812,442
	7,031,940	13,625,073
Deduct:		
Depreciation	1,570,244	1,602,388
Interest on long-term debt	430,677	319,097
Other interest	166,901	136,776
	2,167,822	2,058,261
Income before income taxes and minority interests	4,864,118	11,566,812
Income taxes (Note 9):		
Current	2,194,603	4,031,543
Deferred	(1,007,293)	535,546
	1,187,310	4,567,089
Income before minority interests	3,676,808	6,999,723
Minority share of losses	9,551	28,015
Net income for the period	3,686,359	7,027,738
Retained earnings at beginning of period	50,205,068	44,258,409
	53,891,427	51,286,147
Deduct: Dividends declared—		
On First Preference shares, Series A—\$1.37½ per share (1978—\$2.75)	319	4,803
On Class A shares—66¢ per share (1978—88¢)	811,205	1,056,469
On Class B shares— —¢ per share (1978—88¢)	—	19,807
	811,524	1,081,079
Retained earnings at end of period	\$ 53,079,903	\$ 50,205,068
Earnings per Class A and Class B share (Note 10)	\$3.00	\$5.76
Fully diluted earnings per share (Note 10)	\$3.00	\$5.71

Auditors' Report

To the Shareholders of
Federal Pioneer Limited:

We have examined the consolidated balance sheet of Federal Pioneer Limited as at October 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at October 31, 1979 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO. Toronto
Chartered Accountants November 16, 1979

Consolidated Balance Sheet

	October 31 1979	December 31 1978
ASSETS		
Current assets:		
Cash (including deposit receipts of \$8,500,000 1978—\$10,500,000)	\$ 8,737,851	\$12,554,863
Accounts receivable	21,992,997	23,952,620
Receivable from affiliated companies	105,607	51,826
Inventories (Note 3)	36,445,545	31,237,282
Prepaid expenses, tender and other deposits	963,031	674,370
	68,245,031	68,470,961
Fixed assets (Note 4)	12,201,365	10,798,095
Goodwill (Note 2)	1,585,828	1,603,281
	\$82,032,224	\$80,872,337
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 5)	\$ 944,285	\$ 1,361,855
Accounts payable and accrued liabilities	13,006,257	12,345,611
Payable to affiliated companies	589,794	595,652
Income and other taxes payable	814,791	1,121,616
Dividends payable	—	270,432
	15,355,127	15,695,166
Long-term debt (Note 6)	4,702,966	5,022,397
Deferred income taxes	1,789,196	2,796,489
Minority interests	9,500	46,085
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	7,095,532	7,107,132
Retained earnings	53,079,903	50,205,068
	60,175,435	57,312,200
	\$82,032,224	\$80,872,337

APPROVED BY THE BOARD:

B. W. BALL, Director J. B. CLEMENTS, Director

Consolidated Statement of Changes in Financial Position

	Ten months ended October 31 1979	Year ended December 31 1978
Source of working capital:		
Net income for the period	\$ 3,686,359	\$ 7,027,738
Items not requiring working capital—		
Depreciation	1,570,244	1,602,388
Deferred income taxes	(1,007,293)	535,546
Minority share of losses	(9,551)	(28,015)
Working capital provided from operations	4,239,759	9,137,657
Proceeds from long-term bank loan of foreign subsidiary	—	1,401,840
Disposals of fixed assets	57,549	21,814
	4,297,308	10,561,311
Use of working capital:		
Fixed asset additions, less Government assistance grants of \$53,842 (1978—\$154,815)	3,031,063	1,997,131
Dividends	811,524	1,081,079
Reduction in long-term debt	319,431	406,904
Redemption of outstanding preference shares	11,600	—
Purchase of minority interest in subsidiary	9,581	—
	4,183,199	3,485,114
Increase in working capital	114,109	7,076,197
Working capital at beginning of period	52,775,795	45,699,598
Working capital at end of period	\$52,889,904	\$52,775,795
Working capital is represented by:		
Current assets	\$68,245,031	\$68,470,961
Less: Current liabilities	15,355,127	15,695,166
	\$52,889,904	\$52,775,795

Notes to Consolidated Financial Statements—October 31, 1979

1. Nature of business:

The Corporation has been continued under the Canada Business Corporations Act and together with its subsidiaries is engaged in the manufacture and sale of electrical equipment.

Following the acquisition in 1979 of the parent company, Federal Pacific Electric Company, by Reliance Electric Company, the Corporation changed its fiscal year end to October 31st from December 31st to coincide with that of Reliance Electric Company.

Net sales and net assets of the wholly-owned subsidiary in Great Britain are less than 10% of the total for the Group.

2. Significant accounting policies:

The accompanying financial statements include the accounts of Federal Pioneer Limited and its three subsidiary companies. The fiscal year of the foreign subsidiary ends on September 30 and its accounts have been included as of that date.

Foreign currencies have been translated into Canadian dollars as noted below:

Current monetary assets and liabilities and long-term debt—at the exchange rates prevailing on the balance sheet dates.

Fixed assets, inventories, prepaid expenses, retained earnings and depreciation expense—at the appropriate historical exchange rates.

Revenue and expenses—at the approximate rate of exchange at the time of the transaction.

Revenue and expenses (other than depreciation) of the foreign subsidiary—at the average exchange rate for its fiscal year.

Unrealized gains or losses arising from the translation of long-term debt are deferred and amortized over the remaining life of the debt. Other exchange gains and losses are included in income.

Raw material inventories are valued at the lower of cost and replacement cost while work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined generally by the first-in, first-out (FIFO) method but with certain inventories being valued on an 'average' basis.

Fixed assets are stated at cost. Expenditures on major replacements, extensions and improvements are capitalized. Cost of maintenance, repairs and renewals or replacements other than those of a major nature are charged to expense as incurred. The Corporation and its subsidiaries provide for depreciation generally using the diminishing balance method applying rates which will reduce the original cost to the estimated residual value over the useful lives of the assets. The annual rates used are 5%-10% for buildings and 20% for machinery and equipment. Moulds, jigs and dies are fully depreciated in the year of acquisition.

Goodwill, which represents the excess of cost of shares of subsidiaries over net book value at dates of acquisition, is not being amortized as no impairment in value is considered to have taken place. The reduction in 1979 results from the acquisition of the balance of the minority shares in the foreign subsidiary.

In accordance with generally accepted accounting principles the Corporation and its subsidiaries follow the deferral method of tax allocation.

3. Inventories:

	October 31 1979	December 31 1978
Raw material and work in process	\$34,506,653	\$28,444,111
Finished goods	4,369,113	3,306,588
	38,875,766	31,750,699
Less: Progress payments	(2,430,221)	(513,417)
	<u>\$36,445,545</u>	<u>\$31,237,282</u>

4. Fixed assets:

	October 31 1979	December 31 1978
Cost—		
Land	\$ 466,643	\$ 364,919
Buildings	9,543,726	8,069,555
Machinery and equipment	17,568,465	16,336,624
	27,578,834	24,771,098
Accumulated depreciation—		
Buildings	3,824,856	3,480,413
Machinery and equipment	11,552,613	10,492,590
	<u>15,377,469</u>	<u>13,973,003</u>
Net book value—		
Land	466,643	364,919
Buildings	5,718,870	4,589,142
Machinery and equipment	6,015,852	5,844,034
	<u>\$12,201,365</u>	<u>\$10,798,095</u>

5. Bank indebtedness:

Bank indebtedness of the foreign subsidiary amounting to \$2,040,000 (1978—\$2,535,000) is secured by a floating charge on all of its assets. Of this sum \$1,096,000 (1978—\$1,202,000) is payable after one year and is included as a long-term debt.

6. Long-term debt:

	October 31 1979	December 31 1978
6¼% secured sinking fund debentures, Series A, maturing April 15, 1987, with annual sinking fund payments of \$178,000 in 1980 and thereafter gradually increasing to \$267,000 in 1986. The balance of \$1,505,000 is payable at maturity	\$3,047,000	\$3,214,000
10% mortgage loan repayable in monthly instalments maturing in 1990	523,387	534,703
6¼% mortgage loan repayable in monthly instalments maturing in 1989	222,959	235,550
8¼% chattel mortgage loan of a subsidiary repayable in monthly instalments maturing in 1982	34,309	43,208
Bank loan of the foreign subsidiary of £514,286 (1978— £600,000) repayable in equal half-yearly instalments by 1985 with interest at 1¼% above the base rate secured by a floating charge on all of its assets	<u>1,314,926</u>	<u>1,401,840</u>
	5,142,581	5,429,301
Amount payable within one year included in current liabilities	439,615	406,904
Amount payable after one year	<u>\$4,702,966</u>	<u>\$5,022,397</u>

The aggregate amount of long-term debt required to be repaid in each of the next five years is:

1980	\$ 439,615
1981	456,273
1982	469,714
1983	476,652
1984	496,036
	<u>\$2,338,290</u>

The 6¼% secured sinking fund debentures, Series A, are secured by a Deed of Trust and Mortgage which, inter alia, provides for dividend restrictions under certain conditions. The financial position of the Corporation is such that these restrictions are not applicable at this time.

7. Share capital:

Authorized—

Class A shares without nominal or par value; Class B shares without nominal or par value; and 200,000 First Preference shares issuable in one or more series of which 80,000 are designated as 5½% Cumulative Convertible First Preference shares, Series A.

Outstanding—	October 31 1979	December 31 1978
5½% Cumulative Convertible First Preference shares, Series A, voting (1978—904 shares)	\$ —	\$ 45,200
1,229,099 Class A shares, voting (1978—1,203,903 shares)	7,095,532	7,044,395
Class B shares, convertible, voting (1978—22,508 shares)	—	17,537
	<u>\$7,095,532</u>	<u>\$7,107,132</u>

Changes in share capital during the period—

The holders of the 5½% Cumulative Convertible First Preference shares, Series A were entitled to convert each such share into 4 fully paid and non-assessable Class A shares of the Corporation at any time up to the close of business on January 15, 1979. Of such shares 672 were converted into 2,688 Class A shares prior to the aforesaid date at a stated value of \$33,600 and 232 were subsequently redeemed by the Corporation at the redemption price of \$51 per share. As a result of the aforesaid conversions and redemptions the 5½% Cumulative Convertible First Preference shares, Series A are no longer outstanding or available for allotment or issue.

22,508 outstanding Class B shares, all of which were registered in the name of the Corporation's parent company, Federal Pacific Electric Company were converted into 22,508 Class A shares at a stated value of \$17,537.

8. Research and development costs:

Research and development costs incurred during the period and charged to expense amounted to \$830,000. No costs qualified for deferral.

9. Income taxes:

The effective rate of income tax for the period was favourably affected by the following items:

- the inclusion in earnings of a non-taxable gain arising from the translation of the accounts of the foreign subsidiary;
- the retroactive benefit of recent legislation in Great Britain authorizing the permanent retention of tax relief on the appreciation of inventories;
- the higher rate of tax relief available on the trading losses of the foreign subsidiary.

Excluding these items the effective rate of income tax would have been 37.3% (1978—37.4%).

10. Earnings per share:

The calculations of earnings per share shown in the consolidated statement of income and retained earnings are based on the weighted average number of shares outstanding during each period. Dividends declared on the preference shares were deducted from consolidated earnings for purposes of the calculations.

11. Long-term leases:

The Corporation and its subsidiaries are lessees under leases for plants, warehouses and sales offices in Canada and Great Britain. All of these leases are treated as operating leases with the rents charged to operations in the period to which they relate. No leases have been entered into since January 1, 1979 which meet the definitions of a capital lease.

The longest term of any lease expires in 2002. The aggregate rentals payable for the unexpired terms of these leases are as under:

1980	\$ 475,000
1981	392,000
1982	359,000
1983	347,000
1984	335,000
Thereafter	3,384,000
	<u>\$5,292,000</u>

12. Unfunded pension costs:

Current service costs of the Corporation's various pension plans are funded and charged to operations as they accrue. Based upon estimates by independent actuaries, unfunded past service pension costs at October 31, 1979 amounted to \$492,000 (1978—\$439,000) of which approximately \$326,000 (1978—\$300,000) related to vested past service benefits. Annual payments of \$44,000 (1978—\$37,000) charged to operations are designed to fund this total unfunded liability, including interest, by 2001.

13. Capital commitments:

The Corporation and its subsidiaries have entered into capital commitments as at October 31, 1979 for expenditures on buildings and machinery amounting to \$2,900,000.

14. The Companies Act of British Columbia:

These financial statements comply with the disclosure requirements of the Canada Business Corporations Act and The Securities Act of Ontario, but do not purport to comply with all disclosure requirements unique to the Companies Act of British Columbia.

Five year summary

	Year ended December 31				
	*1979	1978	1977	1976	1975
Net sales	\$121,882,286	\$112,617,341	\$112,195,355	\$106,928,849	\$100,197,052
Income before income taxes and minority interests	6,724,533	11,566,812	13,160,007	14,367,567	16,588,877
Income taxes	1,840,710	4,567,089	5,137,699	6,151,362	7,059,779
Net income for the year	4,893,374	7,027,738	8,008,353	8,204,332	9,521,571
Net income per sales dollar (cents)	4.0	6.2	7.1	7.7	9.5
Earnings per Class A and B share:					
Undiluted	3.98	5.76	7.01	7.24	8.47
Fully diluted	3.98	5.71	6.51	6.67	7.74
Dividends declared:					
First Preference shares	319	4,803	58,533	73,379	79,683
Class A shares	1,081,607	1,056,469	781,208	719,347	517,898
Class B shares	—	19,807	57,019	195,797	134,035
Total	1,081,926	1,081,079	896,760	988,523	731,616
Dividends per share:					
First Preference shares	1.37½	2.75	2.75	2.75	2.75
Class A shares	0.88	0.88	0.73	0.73	0.56
Class B shares	—	0.88	0.73	1.234	0.56
Property, plant and equipment—at cost	28,414,444	24,771,098	22,976,998	21,470,700	19,917,433
—net	12,689,560	10,798,095	10,425,166	10,560,684	10,970,475
Purchases of property, plant and equipment during the year	3,892,447	1,997,131	1,530,309	1,570,420	3,787,611
Depreciation provided for the year	1,940,248	1,602,388	1,659,568	1,971,750	1,322,854
Working capital at end of year	53,404,916	52,775,795	45,699,598	38,287,867	30,358,096
Long-term debt at end of year	4,703,039	5,022,397	4,027,461	4,219,972	4,436,104
Shareholders' equity at end of year	61,112,048	57,312,200	51,365,541	44,253,948	37,038,139
Number of shares outstanding at end of year:					
First Preference shares	—	904	9,434	26,207	28,698
Class A shares	1,229,099	1,203,903	1,114,183	991,491	925,927
Class B shares	—	22,508	78,108	133,708	189,308
Equity per Class A and B share at end of year after allowing for conversion of all outstanding First Preference shares	49.72	46.59	41.76	35.98	30.11

*Figures for the year consist of the ten months ended October 31 1979 as audited, plus two months ended December 31 1979 unaudited. Balance Sheet amounts are as at December 31 1979 and are unaudited.

Directors

*BENJAMIN W. BALL, *Toronto*
President and Chief Executive Officer of the Corporation

*JOHN B. CLEMENTS, Q.C., *Toronto*
Partner, Lash, Johnston (barristers and solicitors)

ROGER D. GARON, *St. Hyacinthe, Quebec*
Vice-Chairman of the Board of the Corporation and President and Director of Aronelle Textiles Ltd.

MARTIN HORWITZ, *New York*
Chairman of the Board and Chief Executive Officer of UV Industries, Inc.
(Until September 28 1979)

WILLIAM B. KORB, *South Bend, Indiana*
Vice-President, Reliance Electric Company
(From December 12 1979)

EDWIN JACOBSON, *New York*
President and Director of UV Industries, Inc.

RICHARD NOONAN, *Newark, N.J.*
Chairman of the Board of the Corporation and a Senior Vice-President of Federal Pacific Electric Company

*JACOB S. VANDERPLOEG, *Toronto*
Retired Executive

*Members of the Audit Committee

Registered Office:

19 Waterman Avenue
 Toronto, Ontario, M4B 1Y2

Parent Company:

Federal Pacific Electric Company
 Newark, New Jersey, U.S.A.

Subsidiary Companies:

	Percentage of voting securities owned
Federal Electric Limited Wolverhampton, England	100
Federal Pioneer Eastech Limited Truro, Nova Scotia	100
La Compagnie Electrique Pioneer du Quebec, Inc. Granby, Quebec	100

Share Listings:

Class A shares—The Toronto Stock Exchange—
 symbol FPE.A

Registrars and Transfer Agents:

Class A shares—National Trust Company, Limited
 Toronto, Montreal, Winnipeg and Vancouver
 6¾% secured sinking fund debentures, Series A—
 The Canada Trust Company
 Toronto, Montreal, Winnipeg and Vancouver

Trustees for the Debenture Holders:

The Canada Trust Company, Toronto

Officers

RICHARD NOONAN, *Newark, N.J.*
Chairman of the Board

ROGER D. GARON, *St. Hyacinthe, Quebec*
Vice-Chairman of the Board

BENJAMIN W. BALL, *Toronto*
President and Chief Executive Officer

A. GORDON DALEY, *Toronto*
Vice-President and General Manager—Distribution Division

BERNARD J. FERREIRA, *Toronto*
Vice-President Manufacturing—Distribution Division

FRANK H. FERRIS, *Wolverhampton, England*
Vice-President and Managing Director of Federal Electric Limited, England
(Until August 14 1979)

EDWARD C. MARKWICK, *Toronto*
Vice-President Finance and Secretary

STANLEY M. ROBERTS, *Toronto*
Vice-President and General Manager—Distribution and Small Power Transformers

KENNETH J. THOMPSON, *Toronto*
Vice-President Marketing

CHARLES A. WRIGHT, *Toronto*
Comptroller and an Assistant Secretary

JAMES H. TAYLOR, *Winnipeg*
An Assistant Secretary



● Sales Offices

Canada

1496 Bedford Highway
Suite 210, Bedford Tower
Bedford, Nova Scotia B4A 1E5

P.O. Box 2698
Moncton, New Brunswick
E1C 8T8

2900 Quatre Bourgeois Street
Suite 103
Ste. Foy, Quebec G1V 1Y4

P.O. Box 550
561 Maisonneuve Street
Granby, Quebec J2G 3H5

3300 Cavendish Boulevard
Suite 275
Montreal, Quebec H4B 2M8

2668 Alta Vista Drive, Suite 205
Ottawa, Ontario K1V 7T4

19 Waterman Avenue
Toronto, Ontario M4B 1Y2

35 Mobile Drive
Toronto, Ontario M4A 2P6

445 Horner Avenue
Toronto, Ontario M8W 2A7

8 Finley Road
Bramalea, Ontario L6T 1A9

P.O. Box 353, 2445 Industrial Street
Burlington, Ontario L7P 3E1

160 Roger Street
Waterloo, Ontario N2J 3Z6

425 Dundas Street, Suite 102
London, Ontario N6B 1V9

1255 Clarence Avenue
Fort Garry, Manitoba R3T 1T4

P.O. Box 336, 1600 First Avenue
Regina, Saskatchewan S4P 3A1

7144 Fisher Street S.E.
Calgary, Alberta T2H 0W5

P.O. Box 3971
12019—160 Street
Edmonton, Alberta T5L 4K1

2551 Viking Way
Richmond, British Columbia
V6V 1N4

Great Britain

Fordhouse Road
Wolverhampton, England
WV10 9ED

■ Plants

Canada

P.O. Box 700, Willow Street
Truro, Nova Scotia B2N 5E5

P.O. Box 550
561 Maisonneuve Street
Granby, Quebec J2G 3H5

P.O. Box 272, Bernard Road
Granby, Quebec J2G 8E5

19 Waterman Avenue
Toronto, Ontario M4B 1Y2

35 Mobile Drive
Toronto, Ontario M4A 2P6

445 Horner Avenue
Toronto, Ontario M8W 2A7

225 Orenda Road
Bramalea, Ontario L6T 1E6

101 Rockman Street
Winnipeg, Manitoba R3T 0L7

P.O. Box 550, 914 Douglas Street
Brandon, Manitoba R7A 5Z7

P.O. Box 336, 1600 First Avenue
Regina, Saskatchewan S4P 3A1

P.O. Box 738, 5727—53A Avenue
Red Deer, Alberta T4N 5H2

2551 Viking Way
Richmond, British Columbia
V6V 1N4

Great Britain

Fordhouse Road
Wolverhampton, England
WV10 9ED



FEDERAL PIONEER LIMITED



Report to Shareholders

For the six months ended June 30, 1979

FEDERAL PIONEER LIMITED

and subsidiary companies

EN FRANÇAIS AU VERSO

INTERIM FINANCIAL REPORT Unaudited

	For the six months ended June 30	
	1979	1978
Net sales	\$58,210,841	\$55,548,758
Income before income taxes.....	\$ 3,020,685	\$ 6,038,430
Income taxes (Note 1).....	911,458	2,335,981
Net income	\$ 2,109,227	\$ 3,702,449
Earnings per Class A and Class B share (Note 2).....	\$1.72	\$3.04
Fully diluted earnings per share (Note 3)	\$1.72	\$3.01

Notes

- 1) The effective rate of income tax for the six months ended June 30, 1979 has been favourably affected by the inclusion in earnings of a non-taxable gain arising from the translation of the accounts of a foreign subsidiary and by the higher rate of tax relief available on foreign trading losses.
- 2) All of the 22,508 Class B shares outstanding as at January 1, 1979 were converted into Class A shares on a one for one basis during February, 1979.
- 3) The conversion option of the First Preference shares, Series A expired on January 15, 1979 at which time there remained outstanding 232 such shares. Because a significant number of the First Preference shares, Series A outstanding at December 31, 1978 were converted into Class A shares during the period January 1-15, 1979 there was no effective dilution of the earnings per share for the six months ended June 30, 1979. All of the remaining 232 outstanding Preference shares were redeemed on July 15, 1979.
- 4) As a result of the acquisition of the Parent Company, Federal Pacific Electric Company, by Reliance Electric Company, the Corporation has changed its fiscal year end to coincide with that of Reliance Electric Company. Accordingly commencing with 1979 the Corporation's fiscal year will end on October 31st and the publication of the unaudited Interim Financial Report for the nine months to September 30, 1979 will be omitted. The next Report to the Shareholders will, therefore, be the audited "Annual Report" for the ten month period ended October 31, 1979.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Unaudited

	For the six months ended June 30	
	1979	1978
Source of working capital:		
Net income for the period	\$ 2,109,227	\$ 3,702,449
Items not affecting working capital -		
Depreciation	940,641	851,168
Deferred income taxes	(554,772)	50,506
Minority share of (losses)/profits	(4,913)	5,732
	2,490,183	4,609,855
Use of working capital:		
Fixed asset additions - net	1,461,920	838,142
Dividends	541,123	531,412
Reduction in long-term debt	271,537	198,452
	2,274,580	1,568,006
Increase in working capital	215,603	3,041,849
Working capital at beginning of period	52,775,795	45,699,598
Working capital at end of period	\$52,991,398	\$48,741,447

FEDERAL PIONEER LIMITED

NOTICE OF CHANGE OF ADDRESS

IF YOUR ADDRESS HAS BEEN CHANGED PLEASE FILL IN AND MAIL THIS FORM TO

NATIONAL TRUST COMPANY, LIMITED, 21 King Street East, Toronto M5C 1B3

STOCK REGISTERED IN NAME OF (TYPE OR PRINT)

NEW ADDRESS

OLD ADDRESS

DATE

Signature of Shareholder

(Sign name exactly as it appears on share certificate)

Rapport aux actionnaires

Pour les six mois arrêtés au 30 juin 1979

FEDERAL PIONEER LIMITED

et ses filiales

ENGLISH ON REVERSE

RAPPORT FINANCIER INTERIMAIRE

non-vérifié

Pour les six mois arrêtés au 30 juin	
1979	1978
\$58,210,841	\$55,548,758
\$ 3,020,685	\$ 6,038,430
911,458	2,335,981
\$ 2,109,227	\$ 3,702,449
\$1.72	\$3.04
\$1.72	\$3.01

Notes

- 1) Le taux réel d'impôt sur le revenu pour les six mois terminés le 30 juin 1979 a été favorablement affecté par l'inclusion des revenus d'un gain non imposable provenant de la traduction des comptes d'une filiale étrangère et par le taux plus élevé d'allègement fiscal sur les pertes commerciales étrangères.
- 2) Les 22,508 actions de Classe B en circulation au 1er janvier 1979 ont été converties en actions de Classe A sur la base d'un échange une contre une au cours du mois de février 1979.
- 3) L'option de conversion des actions privilégiées de premier rang, Série A, est venue à expiration le 15 janvier 1979, date à laquelle il restait 232 actions de ce genre en circulation. Un nombre important d'actions privilégiées de premier rang, Série A, en circulation au 31 décembre 1978 ayant été converties en actions de Classe A au cours de la période du 1er au 15 janvier 1979, il n'y a eu aucune dilution effective des gains par action pour les six mois se terminant le 30 juin 1979. L'ensemble des 232 actions privilégiées qui restaient en circulation ont été rachetées le 15 juillet 1979.
- 4) Par suite de l'acquisition de la compagnie-mère, Federal Pacific Electric Company, par Reliance Electric Company, la Société a changé son année fiscale pour qu'elle coïncide avec celle de Reliance Electric Company. Par conséquent, à partir de 1979, l'exercice financier de la société se terminera le 31 octobre et la publication du rapport financier intermédiaire non vérifié pour les neufs mois se terminant le 30 septembre 1979, sera omis. Le prochain rapport aux actionnaires sera donc le rapport annuel vérifié pour la période de dix mois se terminant le 31 octobre 1979.

ÉVOLUTION DE LA SITUATION FINANCIÈRE CONSOLIDÉE

non-vérifié

Pour les six mois arrêtés au 30 juin	
1979	1978
\$ 2,109,227	\$ 3,702,449
940,641	851,168
(554,772)	50,506
(4,913)	5,732
2,490,183	4,609,855
1,461,920	838,142
541,123	531,412
271,537	198,452
2,274,580	1,568,006
215,603	3,041,849
52,775,795	45,699,598
\$52,991,398	\$48,741,447

Provenance du fonds de roulement :

Bénéfice net

Postes n'affectant pas le fonds de roulement -

Amortissement

Impôts sur le revenu reportés

Quote-part des actionnaires minoritaires dans les

(pertes)/bénéfices

Utilisation du fonds de roulement :

Immobilisations nouvelles - net

Dividendes

Réduction de la dette à long terme

Augmentation du fonds de roulement

Fonds de roulement à l'ouverture

Fonds de roulement à la clôture

FEDERAL PIONEER LIMITED

AVIS DE CHANGEMENT D'ADRESSE

SI VOUS AVEZ CHANGÉ D'ADRESSE, VEUILLEZ REMPLIR ET ENVOYER CETTE FORMULE À

NATIONAL TRUST COMPANY, LIMITED, 21 King Street East, Toronto, MSC 1B3

ACTION INSCRITE AU NOM DE (EN LETTRES MOULÉES OU DACTYLOGRAPHIÉES)

ADRESSE

ANCIENNE ADRESSE

DATE

Signature de l'actionnaire

(La signature doit être identique à celle du
certificat d'action)